



STATE OF MICHIGAN

JENNIFER M. GRANHOLM  
GOVERNOR

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY  
LANSING

MICHAEL R. DEVOS  
EXECUTIVE DIRECTOR

## Office of Community Development

February 24, 2009

### 2009 Housing Resource Fund Notice of Funding Availability (NOFA)

MSHDA's Office of Community Development (OCD) is announcing the availability of funding for 2009 grants from the Housing Resource Fund (HRF). Through this fund, OCD supports projects designed:

- to change the housing market of existing neighborhoods to make them more livable for current residents and more attractive to new residents, thereby creating healthy neighborhoods where it makes social and economic sense for people to invest their time, money and energy; and
- to provide quality affordable housing for low and moderate income households in communities and neighborhoods offering a quality of life that they otherwise couldn't afford.

These projects provide quality, affordable housing through the rehabilitation of existing housing, construction of new housing, or both. They may include related efforts:

- to improve neighborhood amenities,
- to strengthen neighborhood networks,
- to reduce blight and improve the overall physical appearance of the neighborhood, and/or
- to improve the overall perception of the neighborhood by the community as a whole.

To get a sense of what types of projects generally best align with these priorities in different kinds of neighborhoods and communities, see the attached Continuum of Housing and Neighborhoods.

#### **A. Who can apply?**

- Local units of government that are not Local HOME Participating Jurisdictions (PJs).
- Local PJs that receive less than \$500,000 HOME allocation from HUD, for **rental rehabilitation projects only**, and ***if all of the following apply***:
  - (a) The project is explicitly aligned with Michigan's Cool Cities Designated Neighborhood priorities;
  - (b) the project is in a high-density, mixed-use, pedestrian-friendly neighborhood;
  - (c) the project promotes diversity within the target area;
  - (d) there is dollar-for-dollar leverage from the Local PJ; and
  - (e) the project does not supplant existing PJ funded activities.



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- Nonprofit organizations with a 501(c)(3) designation, including Community Housing Development Organizations (CHDOs). Nonprofit applicants applying for funding for projects to be implemented *within* the boundaries of a local HOME Participating Jurisdiction (PJ) must be a MSHDA-designated CHDO and receive 100 percent matching funds from the local PJ to be eligible for HOME funds.

Eligible applicants must demonstrate capacity to administer HRF resources effectively. As part of reviewing applications, OCD will evaluate the status of currently funded projects. Proposals from applicants with many incomplete projects or substantial uncommitted funds may be deferred until future funding rounds.

**B. What are the 2009 HRF application deadlines?**

<b>Window 1</b>	<b>March 23 – April 3, 2009</b>
<b>Window 2</b>	<b>September 14 - 25, 2009</b>

Funding decisions will generally be made within 60 days following the deadline for each Window and announced a short time later.

**Note:** Applications in process may be saved on the website and accessed as often as necessary until they are complete. Applications may not be submitted to MSHDA on-line, however, outside the two 10-day windows noted above. A “saved” application is not the same as a “submitted” application on OPAL. MSHDA will not receive your application until it is “submitted” by the appropriate person.

**Open application process:** OCD recognizes that some projects may be time-sensitive, e.g., Neighborhood Preservation Projects, and other projects involving substantial advance planning and/or site-control constraints and costs. OCD will consider these applications at any time during the year, for good cause.

**Incremental Funding awards:** OCD has implemented an “*Incremental Funding*” methodology on some grants. Where the project involves the sequential production of projects not yet identified, OCD may make a partial funding award, along with indication of intent to fund the entire approved application. Funding for additional units will be released incrementally, as projects are completed in a timely manner.

**C. What programs and projects are eligible under the Housing Resource Fund?**

- **Homebuyer assistance.** Activities include:
  - (a) **Acquisition, Development and Resale (ADR)** of existing units needing rehabilitation or vacant lots for new construction;
  - (b) **Homebuyer Purchase Rehabilitation (HPR)**, through which the grantee provides development assistance to buyers and sellers of homes in the neighborhood to assure an affordable owner-occupancy of units in good repair.
- **Homeowner assistance.** OCD will consider targeted homeowner rehabilitation programs in which the homeowner rehabilitation is an integral part of a locally supported comprehensive targeted revitalization/rehabilitation plan. Proposals which are submitted primarily to expand county-wide homeowner rehabilitation programs will not be approved.

- **Rental rehabilitation.** OCD will consider funding for the rehabilitation of rental property in downtowns, commercial centers, gateways, and adjacent residential neighborhoods (i.e., within a 5-minute walk): (a) generally CDBG funded, (b) affordability at initial occupancy, (c) \$35K limit all-in for the creation of units in previously non-residential space; (d) \$25K limit all-in for any unit in legal residential use and occupied during the last 5 years.

NOTE: New HOME Rental Rehabilitation limits for creating units downtown: Due to the increase in demand for downtown rental rehabilitation programs and the limited availability of CDBG funds, OCD is allowing up to \$40,000 per unit for the creation of new HOME units as part of a downtown rental rehabilitation program. HOME funded projects do have longer affordability requirements that CDBG funded projects do not.

Applicants may be guided by the following general principles:

- Rental rehab projects targeted at downtown business districts often have a long-term positive impact resulting from (a) increased activity in the downtown, (b) increased revenue to downtown property owners, and (c) productive use of space which is often inappropriate from homeownership. In downtowns, applications that are part of a comprehensive downtown or gateway strategy for economic development have priority.
- Targeted rental rehab in single-family residential areas is less likely to have a long-term positive impact, because of (a) supporting a local perception of a residential neighborhood as mostly rental and highly transient, (b) low likelihood that absentee owners will continue to invest in maintenance over time, and (c) the fact that single-family homes should generally be more suitable for homeownership than rental in a healthy neighborhood. Given this, rental rehabilitation in residential areas will be considered only in an area as listed above, and when it is part of a comprehensive targeted strategy with substantial local support.
- **Rental development.** MSHDA will consider investing in subsidized secondary loans for small-scale rental development projects (where the total of all units in the project is 24 units or fewer) where the project will address a clear community development objective and specific community need. The community development impact of the project should be substantial and compelling (such as restoration of a conspicuous abandoned building) and low-income housing tax credits must be maximized. The project must clearly demonstrate there will be sufficient cash flow to sustain the operating costs long term. Rental development applicants must demonstrate significant capacity to both develop and operate small scale rental development projects over the long haul. Note: Application deadlines do not apply to proposals for rental development. Applicants who intend to apply for funding for a small rental development project should contact their CD Specialist early in the process for an individual consultation.
- **Neighborhood Preservation Program (NPP).** Activities that support a comprehensive neighborhood revitalization strategy, including demolition, public improvements, beautification, commercial district revitalization, or marketing and education. **Application deadlines do not apply to NPP proposals.** Applicants who intend to apply for NPP funding should contact their CD Specialist early in the process for an individual consultation and possible site visit. If OCD determines that the site may be appropriate for an NPP, MSHDA staff will develop an individualized application process involving a site visit and pre-application leading to possible invitation to submit a full application.

Various housing activities may be conducted under each of the above local program components as described in the *Housing Resource Fund Summary (HRF Summary)*, available on MSHDA's web site: [www.michigan.gov/mshda](http://www.michigan.gov/mshda), *Nonprofits & Local Government*.

**Special Initiatives:** OCD will consider funding for innovative program models, creative new endeavors, and statewide training programs that do not fit the above categories. These special initiatives will be considered outside the funding rounds on a case-by-case basis, following consultation with OCD staff.

#### **D. What OCD initiatives are NOT included in the Housing Resource Fund?**

The Office of Community Development supports programs and activities in addition to the Housing Resource Fund. Contact your CD Specialist for information on these other opportunities, listed below:

- **CDBG County Allocation Program.** In an effort to make CDBG housing resources available in all parts of the state, the Office of Community Development sets aside a portion of its CDBG Allocation for county governments on a population basis. CDBG resources set aside which are not claimed by county governments within the program's time frames may be transferred to the Housing Resource Fund.
- **Pre-Development Loans.** Pre-Development loans are available to help nonprofit developers pay for pre-development expenses related to planning affordable housing developments from project conception through submission for financing (including the Office of Community Development, the Office of Multifamily Development and Construction, the Office of Supportive Housing and Homeless Initiatives, and the Low Income Housing Tax Credit Program).
- **CHDO General Operating Grants.** CHDOs receiving MSHDA HOME funds from the CHDO set-aside (i.e., for projects owned, sponsored, or developed by the CHDO) may be eligible for CHDO Operating Grants.
- **MSHDA and HUD supported Technical Assistance.** MSHDA has consultants available to provide technical assistance to nonprofit organizations and local units of government. These consultants provide guidance and training geared to increasing grantees' capacity to produce affordable housing.
- **Grants to Michigan Habitat for Humanity.** Local Habitat for Humanity affiliates are eligible for MSHDA HOME funding only by applying to Michigan Habitat for Humanity.

#### **E. How do I find out more?**

For more information, please contact the Office of Community Development or your Community Development Specialist:

*MSHDA Office of Community Development  
735 East Michigan Avenue, P. O. Box 30044  
Lansing, Michigan 48909  
Phone: 517-373-1974  
Fax: 517-241-6672  
TTY: 800-382-4568*

***In addition, OCD will be offering a video workshop at various locations that will include discussion of the new 2009 HRF NOFA. This workshop will be held on Tuesday, March 10 from 10:00 am to 12 noon at the following locations:***

- *Lansing, Hannah Building*
- *Marquette, Northern Michigan University*
- *Dearborn, M-TEC at Henry Ford Community College*
- *Kalamazoo, Fetzer Center, Western MI University*
- *Gaylord, University Center*

Complete video conferencing registration and specific location information can be found at [www.mittac.org](http://www.mittac.org). For those unable to attend this date, there will be a follow-up webinar on Wednesday, March 11 at 11:00 am. Registration for this can also be done via the MITTAC website.

Attachments: CD Specialist Contact Lists  
CD Investment Priorities  
Continuum of Housing and Neighborhoods

**MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY  
OFFICE OF COMMUNITY DEVELOPMENT  
CD SPECIALIST CONTACT LIST BY COUNTY**

<b>County</b>	<b>CD Specialist</b>		<b>Backup</b>	<b>County</b>	<b>CD Specialist</b>		<b>Backup</b>
Alcona	James Espinoza	335-3078	Julie Gardner	Lake	Amy Smith	335-2307	Diane Karkau
Alger	Jim Davis	241-1158		Lapeer	Kelly Gram	335-4358	Renee Conklin
Allegan	Kelly Gram	335-4358	Renee Conklin	Leelanau	Jauron Leefers	241-0895	Tom Durkee
Alpena	James Espinoza	335-3078	Julie Gardner	Lenawee	Diane Karkau	241-2852	Amy Smith
Antrim	Jauron Leefers	241-0895	Tom Durkee	Livingston	Renee Conklin	241-2588	Kelly Gram
Arenac	James Espinoza	335-3078	Julie Gardner	Luce	Jim Davis	241-1158	
Baraga	Jim Davis	241-1158		Mackinac	Jim Davis	241-1158	
Barry	Kelly Gram	335-4358	Renee Conklin	Macomb	Renee Conklin	373-8544	Kelly Gram
Bay	James Espinoza	335-3078	Julie Gardner	Manistee	Jauron Leefers	241-0895	Tom Durkee
Benzie	Jauron Leefers	241-0895	Tom Durkee	Marquette	Jim Davis	241-1158	
Berrien	Julie Gardner	241-4656	James Espinoza	Mason	Amy Smith	335-2307	Diane Karkau
Branch	Diane Karkau	241-2852	Amy Smith	Mecosta	Amy Smith	335-2307	Diane Karkau
Calhoun	Diane Karkau	241-2852	Amy Smith	Menominee	Jim Davis	241-1158	
Cass	Julie Gardner	241-4656	James Espinoza	Midland	James Espinoza	335-3078	Julie Gardner
Charlevoix	Jauron Leefers	241-0895	Tom Durkee	Missaukee	Jauron Leefers	241-0895	Tom Durkee
Cheboygan	James Espinoza	335-3078	Julie Gardner	Monroe	Renee Conklin	241-2588	Kelly Gram
Chippewa	Jim Davis	241-1158		Montcalm	Tom Durkee	335-1096	Jauron Leefers
Clare	Amy Smith	335-2307	Diane Karkau	Montmorency	James Espinoza	335-3078	Julie Gardner
Clinton	Tom Durkee	335-1096	Jauron Leefers	Muskegon	Amy Smith	335-2307	Diane Karkau
Crawford	James Espinoza	335-3078	Julie Gardner	Newaygo	Amy Smith	335-2307	Diane Karkau
Delta	Jim Davis	241-1158		Oakland	Renee Conklin	241-2588	Kelly Gram
Dickinson	Jim Davis	241-1158		Oceana	Amy Smith	335-2307	Diane Karkau
Eaton	Diane Karkau	241-2852	Amy Smith	Ogemaw	Julie Gardner	241-4656	James Espinoza
Emmet	Jauron Leefers	241-0895	Tom Durkee	Ontonagon	Jim Davis	241-1158	
Genesee	Renee Conklin	373-8544	Kelly Gram	Osceola	Amy Smith	335-2307	Diane Karkau
Gladwin	Julie Gardner	241-4656	James Espinoza	Oscoda	James Espinoza	335-3078	Julie Gardner
Gogebic	Jim Davis	241-1158		Otsego	James Espinoza	335-3078	Julie Gardner
Grand Traverse	Jauron Leefers	241-0895	Tom Durkee	Ottawa	Tom Durkee	335-1096	Jauron Leefers
Gratiot	Tom Durkee	335-1096	Jauron Leefers	Presque Isle	James Espinoza	335-3078	Julie Gardner
Hillsdale	Diane Karkau	241-2852	Amy Smith	Roscommon	Julie Gardner	241-4656	James Espinoza
Houghton	Jim Davis	241-1158		Saginaw	Jauron Leefers	241-0895	Tom Durkee
Huron	Kelly Gram	335-4358	Renee Conklin	Sanilac	Kelly Gram	335-4358	Renee Conklin
Ingham	Diane Karkau	241-2852	Amy Smith	Schoolcraft	Jim Davis	241-1158	Shulawn Scott
Ionia	Tom Durkee	335-1096	Jauron Leefers	Shiawassee	Renee Conklin	241-2588	Kelly Gram
Iosco	James Espinoza	335-3078	Julie Gardner	St. Clair	Kelly Gram	335-4358	Jauron Leefers
Iron	Jim Davis	241-1158		St. Joseph	Julie Gardner	241-4656	James Espinoza
Isabella	Tom Durkee	335-1096	Jauron Leefers	Tuscola	Kelly Gram	335-4358	Renee Conklin
Jackson	Diane Karkau	241-2852	Amy Smith	Van Buren	Julie Gardner	241-4656	James Espinoza
Kalamazoo	Kelly Gram	335-4358	Renee Conklin	Washtenaw	Renee Conklin	373-8544	Kelly Gram
Kalkaska	Jauron Leefers	241-0895	Tom Durkee	Wayne	Shulawn Scott	241-1106	
Kent	Tom Durkee	335-1096	Jauron Leefers	Wexford	Jauron Leefers	241-0895	Tom Durkee
Keweenaw	Jim Davis	241-1158					

**MSHDA**  
**Office of Community Development**  
**HOUSING RESOURCE FUND SUMMARY**

## **D. CD INVESTMENT PRIORITIES and TARGETING STRATEGIES**

The following priorities are intended to provide guidance regarding Office of Community Development priorities for investment by the Housing Resource Fund. Applicants for funding should consider these priorities as they plan projects to propose for funding.

OCD's desired outcome for HRF funding is that our investment helps create or sustain a "community of choice". A community of choice is a vibrant, sustainable, affordable, and diverse place, where people choose to live and stay.

*The overall test of a community of choice is whether current or prospective residents with sufficient resources to have a choice about where to live might choose this neighborhood over others.*

A key characteristic of a community of choice is the presence in the neighborhood market of real property with sustainable market value (i.e., property values that are high enough to encourage reinvestment in ongoing maintenance; sustainable property values are the primary indicator of how prospective residents are exercising choice in the market). Communities of choice also typically receive adequate municipal services and public safety, or have a "critical mass" of long-term residents (usually owner-occupants) to support neighborhood networks which can effectively advocate for public services sufficient to sustain a high quality of life.

### **TARGETING STRATEGIES**

Most communities throughout the state are already "communities of choice" in the above sense. These neighborhoods generally do not require targeted intervention with OCD resources. But they may have other problems, such as very high cost. These neighborhoods have their own problems which prevent low income households from "choosing to live and stay," such as lack of affordability. These problems may also be addressed by OCD resources, but the approach to targeting quite different. For example, the creation of affordable housing in a high-cost area should generally *not* be targeted with the result of creating a "poverty pocket" but should be scattered throughout the high-cost market.

But in other areas, such as disinvested neighborhoods or a downtown not currently thought of as a "residential neighborhood," targeting is an essential tool for achieving a long-term impact on the neighborhood—and the resulting positive outcomes for property owners and residents. Other areas may be at a "tipping point"—one way or the other—and a more limited intervention and/or a somewhat broader target area may be appropriate

To create or sustain a community of choice with the help of HRF funding there generally must be a manageable target area where a measurable physical impact or change in the resident mix (such as income diversity or proportion of owner-occupants) in the target area is expected within 2-5 years.

Target areas should have recognizable by residents and the public, with defined boundaries such as major streets, changes in land uses or natural features. There should be physical, economic and/or historical internal focal points, such as churches, schools, shopping districts, parks, or other physical and social anchors? Preferably, the target area should be accessible by public transportation or within walking distance to a viable commercial/retail area.

Depending on the nature of the housing and community problems to be address and the housing projects proposed, target areas may be quite different. For a small community with little variation in the types of housing and neighborhoods, the entire municipality may be the target area—or even two or three communities that share a common economy or major employer. In other cases, the target area may be a single block. The common thread is that the intended positive impact of the housing project on the community should be evident and clearly linked to local community problems, the target area, the housing project proposed and the other local efforts in place to support its intended outcomes.

The Investment Priorities below are an effort to apply these targeting strategies to the types of communities served by OCD's partners, and to provide some overall principles for successful applications for funding for projects which will achieve these outcomes.

## **INVESTMENT PRIORITIES**

- **For projects in areas needing revitalization, HRF prioritizes projects that can be expected to have substantial positive community impact, such as projects in target areas that are highly visible and/or adjacent to traditional centers of commerce.** An important outcome from HRF projects is their anticipated positive effect on community investment patterns—as the housing and physical condition of real estate is improved, owners are encouraged to improve other property and the target area moves toward sustainability. The broader impact of these projects is felt where improvements are highly visible, such as locations near downtown or neighborhood commercial areas.
- **Targeted housing projects should contribute to the implementation of a local coordinated strategy.** Applicants for targeted programs should, at a minimum, identify in their application the issues that must be addressed to maximize the likelihood that housing units produced will contribute to the longer-term improvement of the quality of life in the target area. Since HRF funds are limited, these strategies have better prospects for success if they are supported by a number of local partners, including local government. Where substantial transformation in a target area is needed, such as for extensively disinvested neighborhoods and NPP target areas, local government and private sector commitments should be substantial.
- **Coordination with other state agencies contributes to the success of a revitalization strategy.** MSHDA works with other state agencies to coordinate initiatives to benefit communities. CD will consider the identification of a target area or development project by such initiatives as Neighborhood Enterprise Zone, Main Street, Cool Cities Designated Neighborhood, Michigan Blueprints or other focusing of resources as one factor in determining project priority, because such a designation leverages additional financial resources, improvement of services, and/or promotional assistance. These designations are not determinative for CD, however, and rarely make an otherwise marginal project worthy of funding, nor do they extend funding priority to other areas of a city beyond the actual neighborhood or impact area of the designated project.

- **Prior to undertaking new construction a plan for revitalization and evidence of on-going rehabilitation in target distressed areas should be in place.** If there is substantial evidence of blight, substandard infrastructure, deferred maintenance and/or boarded-up or abandoned structures, these depress the value of new construction and generally suggest lack of market demand to support the creation of yet more housing units. These blighting conditions and any underlying lack of demand should be addressed in a strategic plan and remediation well underway with visible improvement in neighborhood physical conditions prior to implementing significant in-fill new construction projects.
- **Acquisition, Development, & Resale (ADR) to address disinvestment is typically a neighborhood-oriented strategy.** These programs should be targeted at neighborhoods where substantial rehab is not currently sustainable (i.e., is not economically feasible for the private sector), but where program activity may eventually be expected to increase housing values. As a result, ADR programs are most applicable to neighborhoods with (a) rehab stock available at reasonable cost, (b) signs of disinvestment but no evidence of wholesale abandonment, and (c) housing units in close proximity to each other (so that improvements to properties in the program directly benefit adjacent units). These neighborhoods should also evidence (d) some presence of owner-occupants who maintain their properties, and (e) an active neighborhood group, preferably a CHDO, to support continuing revitalization efforts. Applicants should note that lasting revitalization in such areas depends on strategies to increase market values in the neighborhood; completed projects should be aggressively (i.e., professionally) marketed to the general public, typically by a Realtor-member of the local Multiple Listing Service, to maximize resale values. In neighborhoods where no comparable properties exist, properties may be listed for prices based on market analyses provided by competing prospective listing agents, to assure maximum sale price. **This strategy is one that is likely to be very difficult to do given the current state of the housing market.**
- **Acquisition, Development, & Resale strategies may also be used to add affordable housing units in high-cost markets that are already communities of choice.** Since the creation of affordable opportunities for home ownership increases diversity (racial, economic, etc.) the creation of affordable housing in these markets is one of CD's Investment Priorities. However, since subsidies for homebuyer equity is more a "household" benefit than a "community" benefit (i.e., predominantly benefit the assisted household), such subsidies must be reasonable and, under HUD regulations, are subject to recapture (i.e., are secured by a mortgage). Where the per-unit cost of homebuyer subsidies is high, CD may require that homeownership projects create permanently affordable homeownership opportunities (such as land trusts). Properties in these high cost areas can be hard to find, therefore the target area is often the market area itself, focusing on the availability of property appropriately located in the community and suitable for housing development. **This strategy is one that is likely to be very difficult to do given the current state of the housing market.**
- **Homebuyer Purchase & Rehabilitation is market-oriented.** These programs are generally best done in a broader target area to assure that appropriate options are available for buyers. These programs are appropriate for areas such as smaller communities and/or higher cost markets, where local market conditions render geographic clustering of units for revitalization either impossible or inappropriate. Depending on the characteristics of the community and the neighborhood(s) being targeted, a HPR target area needs to balance large enough to offer participants a choice among homes for sale and small enough to create the community impact. Often, HPR target areas are consistent with sustaining a

Community of Choice, allowing people to buy within a designated wider market area. In other cases, HPR target areas may be intended to help encourage investment in neighborhoods that, while not highly distressed, are not otherwise most buyers' first choice. In these cases, HPR prevents further deterioration and over time improves the overall health of a neighborhood.

In such cases, grantees should be actively involved in the home shopping process to assure that participating families get a good value in a home that is close to services that the family uses most—especially with regard to places of employment and, secondarily, to essential retail services. Rehab measures under HPR should generally be limited to those which may otherwise necessitate a major repair expense within the next 5 years, or other repairs to improve the integrity of the structure (new windows to reduce heating costs, etc.). Eligible repairs should be spelled out in consistent local policy. Internal cosmetic changes or discretionary floor plan changes should be avoided.

- **ADR and HPR may be combined to support a comprehensive targeted strategy.** Increased homeownership is often an important component of a targeted revitalization strategy for a neighborhood of single-family homes. Grantees may wish to implement projects using both ADR (to increase the supply of quality housing in the target area) and HPR (to incentive buyers to consider investing in the target neighborhood) to approach the revitalization task from both the supply and demand perspective, simultaneously. The effectiveness of such a strategy depends on the capacity of the grantee to not only identify and control strategically important properties but also to implement buyer-focused programs, such as homeownership counseling. Such applications, however, must clearly distinguish the different goals of these programs, and should not fall into the trap of buying and rehabbing an ADR unit based on the consumer preference of a specific buyer family. The rule of thumb is that where the assisted family is selecting the unit, rehab should be moderate (typically, HPR). Where rehab is extensive, it should be because the site is important to the community as a whole, not just to a specific family.
- **Housing development should contribute to a sense of community and make efficient use of open space and existing infrastructure.** MSHDA will prioritize projects that increase activity and opportunities for private investment in community settings where housing, services and their supporting infrastructure are already in place. To the extent possible under local conditions, OCD new construction projects will feature high quality homes on smaller lots, decreasing both infrastructure costs and any visible division in the community between the “old” and the “new.” Assisted affordable new construction should at least be consistent with the general character of the housing throughout the community, including its older housing, enlarging the existing community rather than dividing it. New construction must be served by public water and/or sewer, and where appropriate, include curb-and-gutter, sidewalks, paved streets and other amenities consistent with and/or enhancing the surrounding neighborhoods.
- **Owner-occupied housing rehabilitation (homeowner rehabilitation) can be an important component of creating or sustaining a community of choice.** Often relatively healthy neighborhoods have a high percentage of low/moderate income homeowners. These homeowners may want to stay in the neighborhood but need the funds to maintain their properties. Their investment in their property can be key to maintaining a community of choice. Homeowner rehabilitation in a target area with HRF funds may not be needed if the CDBG-funded County Allocation program has sufficient funds to cover the needs the neighborhood (as well as the rest of the county); as a result, proposals for such programs

should be able to clearly demonstrate that the lack of ability of homeowners to maintain their property is a serious community problem.

In addition, OCD will consider targeted homeowner rehabilitation programs that are part of broader local efforts to revitalize distressed neighborhoods. Such programs, however, should be only one part of a more substantial locally initiated plan to address neighborhood deterioration. Applicants who can demonstrate significant local neighborhood investments—such as infrastructure, code enforcement, parks, schools, etc., in strategically important neighborhoods—that are deliberately coordinated with a targeted homeowner rehabilitation program will be prioritized.

- **Rental Rehabilitation generally should be used as a strategy limited to target areas in and around downtown and other areas where there is a prevalence of smaller mixed use (commercial and residential) buildings.** The strategy can include creating new units in vacant space above storefront buildings. Due to our limited resources, OCD discourages community-wide rental rehabilitation programs. The lack of affordable rental housing should be addressed with resources that are more plentiful, such as Low Income Housing Tax Credit, MSHDA Multi-family rental development funds, USDA Rural Development funds, etc.
- **Multiple housing activities are sometimes needed to address housing needs in a target area.** OCD desires that Grantees insure that the most critical housing needs of a target area be addressed with HRF and other funding. This may mean that although homeowner rehabilitation (HO) is the primary need in the target area a few key rental properties need to be addressed with RR funding to have the desired visible impact in the target area. It might also mean that a vacant property in foreclosure on a major street that in the heart of the target area should be acquired, rehabilitated and sold under ADR to eliminate this highly visible eyesore. Grantees are encouraged to use any tools necessary to address the comprehensive needs of the target area and to achieve the greatest impact.

## CONSIDERATIONS FOR EVALUATING PROJECTS

- **The capacity of the applicant group to complete the project should be evident in the proposal.** The scope of the project should be reasonable in relation to the track record of the organization and/or the experience of its personnel, and/or by a formal capacity-building plan with professional contractors. In evaluating capacity, the Office of Community Development takes into account a variety of factors, including (but not limited to) track record on similar projects, experience of current staff, and extent of other activities and development projects to which the applicant is currently committed.
- **Communities proposing a rental rehabilitation activity must demonstrate an active code enforcement policy and/or an appropriate strategy to assure both that (a) landlords will be motivated to participate, and (b) other rental properties, not assisted by the program, are maintained.** OCD's resources are never sufficient to address rental housing quality issues community-wide; applicants are expected to provide evidence that sufficient community resources can be leveraged to maintain a reasonable standard for rental housing throughout the target area.
- **Homeowner rehab must provide for broad outreach to all eligible residents of the area.** Homeowner rehab is generally best undertaken by organizations which can be held accountable for providing adequate program outreach. This outreach component will be a major factor in the evaluation of the proposal.

- **Homebuyer programs can't depend on fixing bad credit.** Homebuyer programs should generally be limited to buyers who are qualified borrowers or nearly mortgage-ready at the time of the sale. All homebuyer programs must demonstrate an adequate homeownership counseling component.
- **Private DPA programs such as Ameri-Dream and Neighborhood Gold are prohibited** unless specifically approved after MSHDA review. These programs charge a fee to the seller and increase the sale price to provide "DPA" to bring a property back down to its original market value; these are not comparable to "the best mortgage typically available on the conventional market." The mortgage market is awash with products which take advantage of the emotional involvement and limited understanding of homebuyers. Such programs will become less common as federal regulators at both the IRS and FHA have challenged their appropriateness. If staff members are unfamiliar with a program, ask. (Note: "Ameridream" is not related to HUD's "American Dream Down Payment Initiative.")
- **If the applicant group does not appear to have the capacity to implement the proposed project, the applicant may be considered for Technical Assistance.** OCD provides tools and other assistance to nonprofits and local governments for self-assessment, assessment by CD staff, and/or assessment by contracted consultants, depending in the situation. Once a group's capacity is evaluated in light of its organizational goals and the local housing needs, OCD can often assign additional technical assistance, as appropriate.
- **The applicant should demonstrate an understanding of the way different funding sources, including grant funds, are used efficiently in a project.** As capacity among nonprofits and local governments has increased, funding for subsidies has become relatively scarcer. As a result, grantees should demonstrate the ability to use a variety of sources, including construction financing to increase the production of affordable units that can be produced from their HRF grant. To encourage leveraging, OCD permits applicants to request that a developer fee be included in their project budgets in lieu of an administration line item. However, grantees need to assure that development projects are not "over-leveraged." For homebuyer projects, this means that construction financing cannot exceed an amount that can be repaid from sale of the property at market value for the neighborhood. For rental projects, applicants must assure that end financing can be repaid and the project maintained from rental income. In order to assure that these risks are minimized, the HRF application includes standard work sheets, called "pro formas" to help applicants estimate the amount of subsidy funds that are required. These pro formas are important tools for the analysis of affordable housing projects, and grantees will be evaluated based on their ability to meet production targets. As a result, the ability to use grant funds efficiently depends on a basic understanding of financing real estate development, including the typical sources and uses of funds in a real estate transaction and/or development project.
- **Lower income households require deeper subsidies.** In its efforts to provide affordable housing, MSHDA recognizes that the more affordable the housing, the higher the subsidy is likely to be. OCD will make considerations for the additional cost of making housing more affordable as long as (a) the investment is reasonable, (b) the income levels and credit records of the buyers or tenants are sufficient enough to assure that the property is likely to be maintained and timely payments made, and (c) there are no less expensive reasonable alternatives in the local housing market.

- **Ask questions; conduct reality checks.** CD staff should raise reasonable questions about all elements of a project as proposed in the application and project set-up. Examples: Are the promised impacts of a project reasonable? Are subsidy levels reasonable for the market? Will the limited market of homeowners or landlords be willing to accept the required lien provisions? Is there a market for new construction (i.e., more housing units) in a neighborhood with very low property values? If a grantee is projecting high development subsidies *and* high homebuyer subsidies, what's going on?

**MSHDA**  
**Office of Community Development**  
**HOUSING RESOURCE FUND SUMMARY**

**E. CONTINUUM OF HOUSING FOR NEIGHBORHOODS**

The Housing Resource Fund provides a flexible resource to support housing development that is (a) targeted for neighborhood impact, and/or (b) designed to support a local comprehensive neighborhood revitalization strategy. In order to provide adequate subsidies to permit development in a wide range of neighborhood markets, the HRF provides financing to address gaps as large as \$60,000 per unit. But the HRF also seeks to increase its impact on neighborhoods by maximizing the number of units that can be developed in the local market—with the related need to minimize the per unit subsidy required.

In a competitive funding environment, applicants need an indication of the acceptable range of per-unit subsidies that OCD may consider appropriate to various local market conditions. So in 2006 the Office of Community Development created a “Continuum of Housing for Neighborhoods,” as a guide to appropriate programming for these neighborhood types:

<b>Neighborhood Type</b>	<b>Activities</b>
Cities of Promise	Development readiness activities (demolition, blight reduction, building neighborhood networks, planning, etc.) are appropriate.
Revitalization Neighborhoods	Deeper per unit subsidies may be acceptable on strategically important properties supported by a local revitalization strategy.
Tipping-Point Neighborhoods	Smaller development gaps required in communities with moderate but increasing property values that may be attractive to a diverse range of incomes.
Stable Neighborhoods	Smaller development gaps required where building costs, incomes, and market values are more balanced.
Stable Neighborhoods (high cost)	Deeper subsidies for affordability are acceptable for properties where a Community Land Trust or other form of ownership assures affordability.
Rural housing (non-neighborhood)	Locally determined strategies funded through county allocations.

An expanded version of the above chart showing these neighborhood types, their typical characteristics, desired program outcomes, and expected per-unit gaps are set forth on the attached “Continuum of Housing for Neighborhoods.” This chart does not replace the Office of Community Development’s “Investment Priorities” or policy bulletins or other guidance. It is best understood as a companion piece, intended to provide further guidance as to the characteristics that OCD reviewers look for when looking for characteristics that tend to lead to successful and cost-effective housing interventions to benefit low and moderate income residents of our communities, and the cities in which they are located.

Office of Community Development  
**Resources for Neighborhood Revitalization**

**Our mission is to invest in comprehensive efforts to move neighborhoods towards becoming “communities of choice”: healthy, safe neighborhoods with a high quality of life, offering a range of affordable housing options in a diverse, vibrant, attractive environment where people will *choose* to live and stay.** The chart below presents housing production programs funded by MSHDA’s Office of Community Development in support of this mission:

Neighborhood Type	Redevelopment Neighborhoods	Revitalization Neighborhoods	Tippling Point Neighborhoods	Stable Neighborhoods	Other Initiatives: Rural & Small Communities
	<b>Neighborhood Revitalization</b>		<b>Housing Opportunities</b>		<b>Co. Allocation Program</b>
<b>Characteristics</b> (how does MSHDA CD “know it when we see it”?)	<ul style="list-style-type: none"> <li>Pervasive blight</li> <li>Social disorganization</li> <li>Very low property values</li> <li>Minimal owner-occupied housing</li> <li>Abandoned and/or tax-reverted property</li> <li>Limited neighborhood capacity for revitalization</li> </ul>	<ul style="list-style-type: none"> <li>High rental (typically &gt;25% for single-family housing stock and increasing or stable)</li> <li>Signs of disinvestment/ evidence of blight</li> <li>Values lower than cost to develop</li> <li>Marginal business/few commercial services for residents</li> <li>Incomes generally below the community-wide average.</li> </ul>	<ul style="list-style-type: none"> <li>Rate of ownership increasing</li> <li>Spot blight</li> <li>Spot revitalization</li> <li>Increasing land costs</li> <li>Evidence of private investment</li> <li>Higher level of business organization; expanding commercial services for neighborhood residents</li> </ul>	<ul style="list-style-type: none"> <li>Typically, high rates of homeownership</li> <li>Stable/increasing property values</li> <li>Healthy business/commercial</li> <li>Ongoing investment by owners</li> <li>Often characteristic of small communities</li> <li>Can include very high-cost resort markets</li> </ul>	<ul style="list-style-type: none"> <li>Rural housing</li> <li>Small communities</li> <li>Small cities</li> </ul>
<b>Assets</b> (what is MSHDA CD looking for as a foundation to build on?)	<ul style="list-style-type: none"> <li>Strategic importance of neighborhood for the larger community</li> <li>Local government leadership and support for targeted investment</li> <li>Involvement by other potential funders/ stakeholders</li> <li>Ability to use local funds to leverage state, federal and private investment</li> </ul>	<ul style="list-style-type: none"> <li>Local capacity for neighborhood management and/or housing development</li> <li>Sense of neighborhood identity</li> <li>Some anchors for revitalization (nearby stable neighborhood, commercial, schools, parks, etc.)</li> <li>Comprehensive revitalization plan or planning process</li> <li>Local government leadership and support for targeted investment</li> <li>Ability to use local funds to leverage state, federal and private investment</li> </ul>	<ul style="list-style-type: none"> <li>Developers with knowledge of neighborhood market and opportunities</li> <li>Walkable connections to services, commercial</li> <li>Identified projects at market or near-market rates</li> <li>High density to support pedestrian-based commerce and mixed-use development</li> <li>Public transit linkages</li> <li>Ability to use local funds to leverage state, federal and private investment</li> </ul>	<ul style="list-style-type: none"> <li>Proximity to jobs and services</li> <li>Reasonable feasibility and/or affordability gaps (affordability gaps may be large in high-cost markets)</li> <li>Walkable connections to services, commercial</li> <li>Identified projects at market or near-market rates</li> <li>Ability to use local funds to leverage state, federal and private investment</li> </ul>	<ul style="list-style-type: none"> <li>Existing rural housing stock</li> <li>Capacity to serve residents</li> <li>Property owners willing to invest in housing as they are able</li> </ul>
<b>Policy Objective</b> (what is MSHDA CD trying to accomplish? That is, what needs to happen to create a Community of Choice?)	<ul style="list-style-type: none"> <li>Arrest/begin to remove blight</li> <li>Support existing property owners who want to remain</li> <li>Partner with city and other existing stakeholders</li> <li>Promote access to jobs and job training</li> <li>Support activities that will contribute to neighborhood redevelopment</li> <li>Promote improvement in neighborhood schools</li> </ul>	<ul style="list-style-type: none"> <li>Improve balance of homeownership and rental</li> <li>Increase neighborhood values to move toward market rate</li> <li>Increase and support local private investment</li> <li>Change public perception</li> <li>Partner in addressing unmet needs</li> <li>Improve resident satisfaction with neighborhood schools</li> <li>Promote neighborhood businesses to meet basic community needs</li> <li>Improve public transit linkages</li> </ul>	<ul style="list-style-type: none"> <li>Stimulate private investment</li> <li>Support local targeted development areas</li> <li>Maximize production of affordable units.</li> <li>Preserve neighborhood</li> <li>Increase household wealth through homeownership</li> <li>Improve resident satisfaction with neighborhood schools</li> <li>Promote business participation in and support of community activities</li> </ul>	<ul style="list-style-type: none"> <li>Make units affordable for low to moderate income families, including homeownership units</li> <li>Support local targeted investment areas</li> <li>Promote efficient use of resources</li> <li>Production of permanently affordable units in high cost markets (Ltd. Equity Ownership)</li> <li>Promote business participation in and support of community activities</li> </ul>	<ul style="list-style-type: none"> <li>Support local government capacity to improve housing</li> <li>Allow aging in place</li> <li>Preserve existing housing stock</li> <li>Improve rental housing in small communities/downtowns</li> <li>Promote owner investment</li> <li>Support affordable investment for low-income families (PIP)</li> </ul>
<b>Types of Projects and Activities/Cost per Unit</b> (what does MSHDA CD have to offer?)	<ul style="list-style-type: none"> <li>Neighborhood Stabilization (Demolition, neighborhood cleanup, etc.)</li> <li>Homeowner Rehabilitation</li> <li>Enhanced Technical Assistance &amp; Planning, or Significant Projects</li> </ul>	<ul style="list-style-type: none"> <li>Acquisition/Development for Resale (ADR) \$40 - \$60K/unit</li> <li>Homebuyer Purchase w/Rehab (HPR) \$30K unit avg.</li> <li>Rental Rehab \$15-25K/unit avg.</li> <li>Homeowner Rehab \$25K/ unit max</li> <li>Neighborhood Preservation (demolition, marketing, signage, landscaping, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>Acquisition/Development for Resale (ADR) \$35 - \$50K/unit</li> <li>Homebuyer Purchase w/Rehab (HPR) \$25K unit avg.</li> <li>Neighborhood Preservation activities</li> <li>Rental Rehab \$25K/unit avg.</li> <li>Homeowner Rehab \$25K/ unit max</li> </ul>	<ul style="list-style-type: none"> <li>Acquisition/Development for Resale (ADR) \$35 - \$50K/unit (up to \$60K in high cost only)</li> <li>Homebuyer/Purchase w/Rehab (HPR) \$25K unit</li> <li>Rental Rehab \$25K/unit avg.</li> </ul>	County Allocation Program Property Improvement Program (PIP) <ul style="list-style-type: none"> <li>Homeowner Rehab (HO) \$25K/unit max (\$18K avg.)</li> <li>Rental Rehab \$25K/unit</li> <li>PIP loans up to \$25K/unit</li> </ul>

## Strategic Context for Neighborhood Revitalization

MSHDA's Office of Community Development has resources for the creation of affordable housing that will contribute to the creation of "Communities of Choice." However, **the development and improvement of housing is only one element of an effective neighborhood revitalization**, the development of housing units alone is rarely sufficient to effect community transformation. Below are considerations for comprehensive neighborhood planning, and resources to support strategic neighborhood revitalization by CDCs.

<b>KEY LOCAL INITIATIVES.</b> Neighborhood transformation begins at the local level. Creating and sustaining a Community of Choice depends on initiatives that can be implemented only at the local level. In some areas, local residents can leverage state supports						
	<b>Elimination of Blight</b>	<b>Quality Community Schools</b>	<b>Safe Streets</b>	<b>Quality public services</b>	<b>Quality Commercial Services</b>	<b>Family Supports</b>
<b>Local Initiatives</b>	Code enforcement Neighborhood clean-up Advocacy for demolition, police, and sanitation services	Local school improvement Parent-teacher organization and parent involvement programs Access to early childhood and day care	Neighborhood Watch Community policing	Infrastructure improvement (streets, sidewalks, alleys, lighting) Public transit access	Façade improvement programs BID/TIF Programs Corridor Programs Microenterprise Main Street Program	Neighborhood association with accountability and effective outreach to new residents Community organizing Voter education
<b>State/Federal supports</b>	Vision 2020 Neighborhood Preservation Program	Family Resource Centers Arts and Learning Program Access to Head Start	Safe Routes to School	Community Development Block Grant Capital Improvement Grants for Arts Facilities	Brownfield Program Small Business loan guarantees New Markets Tax Credits Historic Tax Credits	Asset Building/IDAs Key to Own Program Weatherization Job Training programs MI Opportunity Partnership LINKS Homeownership Counseling

<b>KEY STATE DEVELOPMENT INCENTIVES (and limitations):</b> Development incentives can boost investment in development projects, but these incentives come with conditions. Neighborhood leaders need to assess the impact of the limitations involved in using these incentives:							
<b>Program</b>	<b>HOME</b>	<b>CDBG</b>	<b>Brownfield</b>	<b>LIHTC</b>	<b>NEZ</b>	<b>Historic Rehab</b>	<b>New Markets Tax Credits</b>
<b>Primary benefits</b>	Flexible resource for housing development; income limits permit near-market rate development	May be used for housing, infrastructure, or economic development	May be used for market-rate commercial and residential development	Permits large scale residential new construction, and adaptive reuse of large buildings	Helps to make development feasible by reducing the increase in property taxes from improvement	Credit against development cost of historic rehabilitation	Supports commercial development
<b>Limitations</b>	All housing units must be affordable; cannot be used for units which will be market-rate	State funds may not be used in large cities which receive their own CDBG direct from the Federal government	Eligibility limited to certain communities.	Units developed may not be owner-occupied for at least 15 years	Reduces property tax revenue to local government; must be approved by city council	Limited to historically significant structures and districts; residential development must be rented for 5 years	Complex and still unfamiliar to most developers and communities

<p><b>KEY ELEMENTS OF NEIGHBORHOOD REVITALIZATION.</b> Comprehensive Neighborhood Revitalization</p> <ul style="list-style-type: none"> <li>• <b>Image:</b> what image of our neighborhood will support our efforts to attract new residents?</li> <li>• <b>Market:</b> how can we increase housing values and rates of appreciation to support ongoing investment by property owners?</li> <li>• <b>Physical Conditions:</b> what can we do that will make the greatest improvement in the physical appearance of our neighborhood?</li> <li>• <b>Neighborhood Management:</b> how can residents gain a stronger sense of control over the future destiny of our neighborhood?</li> </ul>
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<p><b>HOUSING CRITERIA.</b> Housing development, including affordable housing, should be an asset to the neighborhood. Wherever possible, housing units funded by MSHDA CD—and all housing development—in the community should meet high standards of quality:</p> <ul style="list-style-type: none"> <li>• Meet or exceed the neighborhood standard, complementing existing housing types and lot sizes</li> <li>• Provide sufficient amenities to be marketable to buyers who are new to the neighborhood</li> <li>• Provide reasonable storage for a vehicle and other personal property not kept in the unit (bicycles, lawn mowers, etc.)</li> <li>• Include attractive, hardy, low-maintenance landscaping</li> <li>• Include a basement that can be cost-effectively remodeled into future living space (sufficient ceiling height, egress window)</li> <li>• Be of high quality construction, but may be on smaller lots to reduce maintenance, maintain density.</li> <li>• Incorporate design features to encourage social interaction (such as front porches, sidewalks, etc.)</li> <li>• Be supported by community group to orient new residents to neighborhood management practices</li> <li>• Be supported by adequate public services (street maintenance, parks, schools, etc.)</li> <li>• Meet a high standard of energy-efficiency and accessibility</li> </ul>
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<p><b>WHEN AFFORDABILITY IS THE PROBLEM:</b> tools are available for high-cost communities</p> <ul style="list-style-type: none"> <li>• Down payment assistance</li> <li>• RD mortgages</li> <li>• MSHDA mortgages</li> <li>• Community Land Trust</li> <li>• Asset building</li> <li>• Key to Own</li> <li>• Habitat for Humanity</li> </ul>
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